

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF DUKE ENERGY INDIANA,)
INC. FOR APPROVAL OF A CHANGE IN ITS) CAUSE NO. 42736 RTO 11
MIDWEST INDEPENDENT SYSTEM)
OPERATOR MANAGEMENT COST AND)
REVENUE ADJUSTMENT FACTOR UNDER) APPROVED:
ITS STANDARD CONTRACT6 RIDER NO. 68) SEP 19 2007

BY THE COMMISSION:

David E. Ziegner, Commissioner

Loraine Seyfried, Administrative Law Judge

On July 23, 2007, Duke Energy Indiana, Inc. ("Duke Energy Indiana," "Petitioner" or "Company") filed its Verified Application ("Verified Application") requesting the Indiana Utility Regulatory Commission ("Commission") approve a change in the adjustment factor under Duke Energy Indiana's Standard Contract Rider No. 68 entitled Midwest Independent System Operator Management Cost And Revenue Adjustment ("Rider No. 68") to be used for Duke Energy Indiana's October, November and December, 2007, retail electric billing cycles.

Pursuant to proper notice of hearing, published as required by law, proof of which was incorporated into the record by reference, a public Evidentiary Hearing was held in this Cause on Monday, August 27, 2007 at 2:00 p.m., EDT, at the Commission's offices at National City Center, 101 West Washington Street, Indianapolis, Indiana. Duke Energy Indiana and the Indiana Office of Utility Consumer Counselor ("OUCC") appeared and participated at the hearing.

At the hearing, Duke Energy Indiana offered into evidence its case-in-chief in support of its Verified Application, consisting of the Verified Application and the testimony and exhibits of Ms. Maria T. Birnbaum, Duke Energy Shared Services, Inc.'s Director, Rate Services, Indiana Rate Department, and Mr. John D. Swez, Duke Energy Shared Services, Inc.'s, Director, Bulk Power Marketing and Trading. The OUCC offered into evidence at the hearing the testimony and exhibit of Mr. Wes R. Blakley, a Principal Utility Analyst for the OUCC. No other persons appeared or participated at the hearing.

Based upon the applicable law and the evidence herein, this Commission now finds:

1. **Notice and Jurisdiction.** Due, legal and timely notice of the hearing in this Cause was given as required by law. Duke Energy Indiana is a public utility within the meaning of Ind. Code § 8-1-2-1, as amended, and is subject to the jurisdiction of this Commission in the manner and to the extent provided by the laws of the State of Indiana, including the Public Service Commission Act, as amended, Ind. Code § 8-1-2.

Therefore, this Commission has jurisdiction over Duke Energy Indiana and the subject matter of this Cause.

2. Duke Energy Indiana's Characteristics. Duke Energy Indiana is a public utility corporation organized and existing under the laws of the State of Indiana with its principal office in the Town of Plainfield, Indiana, and is a second tier wholly-owned subsidiary of Duke Energy Corporation. Duke Energy Indiana is engaged in rendering retail electric utility service in the State of Indiana and owns, operates, manages and controls, among other things, plant and equipment within the State of Indiana used for the production, transmission, delivery and furnishing of such service to the public.

3. Background and Relief Requested in this Cause. In its most recent rate case, Cause No. 42359 (*Ind. Util. Reg. Comm'n*, May 18, 2004), Duke Energy Indiana proposed, among other things, Rider No. 68 to track for recovery from (or credit to) its retail electric customers certain Company costs and transmission revenues related to Duke Energy Indiana's participation in the Midwest Independent Transmission System Operator, Inc. ("Midwest ISO" or "MISO"). In our May 18, 2004 Order in Cause No. 42359 ("May 18, 2004 Order"), we approved, among other things, Duke Energy Indiana's proposed Rider No. 68. (May 18, 2004 Order, pp. 118-120 and 145.) Certain modifications were subsequently made to Rider No. 68 in Cause No. 42736 (*Ind. Util. Reg. Comm'n*, December 15, 2004) and Cause No. 42736-RTO 4 (*Ind. Util. Reg. Comm'n*, December 21, 2005).

Under Rider No. 68, Duke Energy Indiana tracks for recovery from, or credit to, Duke Energy Indiana's retail electric customers, the following on a quarterly reconciled basis: (i) Midwest ISO management costs billed to Duke Energy Indiana (or a designee of the Company) by the Midwest ISO under Schedules 10 (ISO Cost Recovery Adder) and 10-FERC (FERC Annual Charges Recovery), or a successor provision of either, of the Midwest ISO Open Access Transmission and Energy Markets Tariff ("Midwest ISO TEMT"), or any successor tariff of the Midwest ISO, which are allocable to Duke Energy Indiana's retail electric customers; (ii) Midwest ISO management costs billed to Duke Energy Indiana (or a designee of the Company) by the Midwest ISO under Schedule 16 (Financial Transmission Rights ("FTR") Administrative Service Cost Recovery Adder), or a successor provision, of the Midwest ISO TEMT, or any successor tariff of the Midwest ISO, which are allocable to Duke Energy Indiana's retail electric customers; (iii) Midwest ISO management costs billed to Duke Energy Indiana (or a designee of the Company) by the Midwest ISO under Schedule 17 (Energy Market Support Administrative Service Cost Recovery Adder), or a successor provision, of the Midwest ISO TEMT, or any successor tariff of the Midwest ISO, which are allocable to Duke Energy Indiana's retail electric customers; (iv) costs billed to Duke Energy Indiana (or a designee of the Company) by the Midwest ISO under the Midwest ISO TEMT, or any successor tariff of the Midwest ISO, for standard market design ("SMD") which are allocable to Duke Energy Indiana's retail electric customers; (v) other government mandated transmission costs Duke Energy Indiana is required to pay on behalf of its retail electric customers; and (vi) certain Midwest ISO transmission revenues assigned to Duke Energy Indiana (or a designee of the Company), collected by the Midwest ISO

under the Midwest ISO TEMT, or any successor tariff of the Midwest ISO, and which are allocable to Duke Energy Indiana's retail electric customers. (Petitioner's Exhibit 1A, pp. 5-6.)

Proposed Rider No. 68 adjustment factors are presented to this Commission on a quarterly basis and are reviewed by the OUCC and this Commission in a proceeding limited to this purpose. The current proposed Rider No. 68 adjustment factors would apply to Duke Energy Indiana's October, November and December, 2007 retail electric billing cycles. (Petitioner's Exhibit 1A, p. 2.)

4. Proposed Rider No. 68 Adjustment Factors - Adjustments for Duke Energy Indiana's October, November and December, 2007 Retail Electric Billing Cycles.

**Duke Energy Indiana's Proposed Rider No. 68
Adjustment Factor Formula Inputs**

Charge Category	Amount
a) MISO Management Cost Adder – Schedules 10 & 10-FERC	\$1,547,166
b) MISO Management Cost, FTR – Schedule 16	\$211,667
c) MISO Management Cost Energy Market - Schedule 17	\$1,234,669
d) MISO SMD or other Govt. mandated transmission costs	\$5,160,454
e) MISO Transmission Revenue	\$614,522
f) Individual retail rate group's allocated share of retail peak demand	Petitioner's Exhibit 1A,A-1, page 3 of 4 (Rate group specific)
g) Individual retail rate group's kWh sales	Petitioner's Exhibit 1A,A-2 (Rate group specific)
h) Revenue Conversion Factor	1.02158

Ms. Birnbaum sponsored Petitioner's Exhibit A-1, attached to Petitioner's Exhibit 1A, which is Duke Energy Indiana's proposed revised Standard Contract Rider No. 68. Page 3 of this exhibit shows the Percent Share of Retail Peak developed for cost of service purposes in Cause No. 42359 based on the twelve-month period ended September 30, 2002, which is used to allocate cost to each retail group. (Petitioner's Exhibit 1A, p. 9.)

Ms. Birnbaum testified that Petitioner's Exhibit A-2, attached to Petitioner's Exhibit 1A, shows the individual retail rate group's billing cycle kilowatt-hour ("kWh") amount used to develop the respective proposed Rider No. 68 adjustment factors for Duke Energy Indiana's October, November and December, 2007 retail electric billing cycles. The kWh amounts are based on the Company's actual sales to each retail rate group for the months of October, November and December, 2006. (Petitioner's Exhibit 1A, pp. 9-10.)

Ms. Birnbaum testified that Petitioner's Exhibit A-3, attached to Petitioner's Exhibit 1A, shows the actual booked costs and transmission revenues covered by Rider

No. 68 for the months of March, April and May, 2007. Ms. Birnbaum explained that Petitioner's Exhibit A-3 also compares the actual net amount of the "a", "b", "c", "d" and "e" factors of the Rider No. 68 formula for the quarter (*i.e.*, a charge amount of \$7,539,434) to the quarterly level built into Duke Energy Indiana's base retail electric rates (*i.e.*, a credit amount of \$1,337,000) as calculated on page 1 of Petitioner's Exhibit A-1. Ms. Birnbaum further explained that the difference in these amounts (*i.e.*, a charge amount of \$8,876,434) is then increased by the applicable revenue conversion factor (*i.e.*, 1.02158) and allocated to the respective retail rate groups by the percentage allocators shown on page 3 of Petitioner's Exhibit A-1. Ms. Birnbaum concluded that the result is a total retail current charge amount of \$9,067,987, to be collected from Duke Energy Indiana's retail electric customers through the Rider No. 68 adjustment factors for its October, November and December, 2007 billing cycles. (Petitioner's Exhibit 1A, pp. 11-13.)

Ms. Birnbaum indicated that Petitioner's Exhibit A-4, attached to Petitioner's Exhibit 1A, shows the calculation of the proposed Rider No. 68 adjustment factors by retail rate group, including the March, April and May, 2007 reconciliation total credit of \$80,320, as developed on Petitioner's Exhibit A-5, attached to Petitioner's Exhibit 1A. Therefore, the total amount to be recovered through the Rider No. 68 adjustment factors for the October, November and December, 2007 billing cycles is \$8,987,667. Ms. Birnbaum testified that Petitioner's Exhibit A-6, attached to Petitioner's Exhibit 1A, compares the bill of a typical residential customer using 1000 kilowatt-hours per month based upon the proposed Rider No. 68 adjustment factor to the bill of a typical residential customer using 1000 kilowatt-hours per month based upon the approved factor from the most recent quarter. Ms. Birnbaum stated that under the proposed Rider No. 68 adjustment a typical residential customer will experience an increase of \$0.06 on his or her base electric bill when compared to the previous quarter's base bill (excluding the effect of various "tracking mechanisms" as noted on Petitioner's Exhibit A-6). (Petitioner's Exhibit 1A, pp. 13-15.)

Both Ms. Birnbaum and Mr. Swez discussed the Midwest ISO's Regional Expansion Criteria and Benefits (RECB) Cost Recovery – Schedule 26, but did not request recovery in Cause No. 42736-RTO 11, pending a FERC decision on a complaint by certain Midwest ISO transmission owners concerning the legality of allocating costs to Midwest ISO members for transmission projects which are not yet in service. (Petitioner's Exhibit 1A, pp. 15-19 and Petitioner's Exhibit 1B, p. 9.) Duke Energy Indiana reserved its right to request recovery of these charges in future Rider No. 68 proceedings.

Ms. Birnbaum testified that the same allocation methods used in Cause Nos. 42736-RTO 3 and 42736-RTO 5 have been used in this filing to distribute the same types of costs between Duke Energy Indiana and Duke Energy Ohio, Inc. (Petitioner's Exhibit 1A, p. 19.)

The testimony of Mr. Swez provides an overview of the Midwest ISO's Day 2 markets and the Company's participation in those markets. Mr. Swez also testified as to the types of Day 2 Markets costs billed by the Midwest ISO to the Company pursuant to

the Midwest ISO's TEMT. Mr. Swez testified that in his opinion the Company's incurrence of the administrative charges and other Midwest ISO TEMT charges and credits included in this filing with the Commission are reasonable. (Petitioner's Exhibit 1B, pp. 2-9.)

The testimony of OUCC witness Wes R. Blakley confirms Duke Energy Indiana's calculation of the amount to be recovered under the proposed Rider No. 68 adjustment factors for Duke Energy Indiana's October, November and December, 2007 retail electric billing cycles. (Public's Exhibit No. 1, p. 4.)

5. **Commission Findings.** Based on the evidence presented in this Cause we find that Duke Energy Indiana has adequately explained the proposed Rider No. 68 adjustment factors for its October, November and December, 2007 retail electric billing cycles. Accordingly, we hereby approve such adjustment factors and direct Duke Energy Indiana to include such adjustment factors in the Rider No. 68 filed with this Commission in compliance with this Order.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. Duke Energy Indiana's Rider No. 68 adjustment factors for its October, November and December, 2007 retail electric billing cycles, as described herein, are hereby approved.

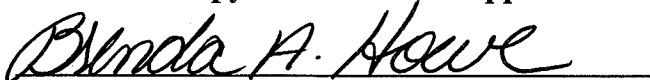
2. Prior to placing in effect the Rider No. 68 adjustment factors approved herein, Duke Energy Indiana shall file with the Electricity Division of this Commission a separate amendment to its rate schedules, with clear reference therein that such Rider No. 68 adjustment factors are applicable to the rate schedules reflected on the amendment.

3. This Order shall be effective on and after the date of its approval.

HARDY, GOLC, LANDIS, SERVER, AND ZIEGNER CONCUR:

APPROVED: SEP 19 2007

I hereby certify that the above is a true and correct copy of the Order as approved.



Brenda A. Howe
Secretary to the Commission